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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

DOLLARS-AND-CENTS VALUE
OF
THE TOBACCO INSPECTION AND MARKET NEWS
SERVICES



By Hugh W. Taylor, Senior Marketing Specialist

Address, to farmers at Field Day held July 10, 1941, at Oxford
Test Farm, Oxford, N. C.

Tobacco production is probably the primary interest of the farmers gathered for this Field Day. And they will learn much, no doubt, both of theory and practice, that will enable them to produce larger yields of better quality. Marketing, however, will claim their attention a few weeks hence, when the tobacco crop will be cured and ready for sale.

It seems fitting, therefore, that some thought be given the problems connected with marketing tobacco, for it is on the market that the farmer learns the final result of his year's work. What we are concerned with now is not whether the market is high or low, but rather the means by which each individual grower can be reasonably certain of getting the best possible price for his particular crop. Large yields of desirable quality do not of themselves insure that the grower will receive prices that compare favorably with average prices on the market. In fact, you know and I know that sometimes good tobacco sells below its current market value. There are two reasons for this: Faulty preparation of tobacco for market, and failure of the grower to use his privilege of rejecting a bad sale.

Farmers as a group understand that tobacco must be properly sorted and prepared for market in order to sell to the best advantage. Many farmers, on the other hand, do not apply the principles of correct sorting, and the Agricultural Marketing Service in cooperation with the county agents and agricultural teachers is endeavoring to correct this situation. What I particularly want to discuss today is the second reason that I mentioned for low prices for your crop - failure to use the rejection privilege.

Farmers frequently are puzzled by the difference in price obtained for different lots of the same general characteristics. In the case of two split piles, as nearly alike as products of nature can be, one for example, sells for \$15.00, and the other for \$23.00 per hundred pounds. Then there are the cases where one-half of a curing sells at satisfactory prices and the other half, made up of the same grades, is knocked down at ruinous prices. Such cases, and there are many, are very puzzling to farmers.

I am calling particular attention to these differences in price for tobacco of the same grade for two reasons: First, because they are the cause of much criticism against auction markets; and second, because to a large extent they represent the problem which the Department is trying to solve by tobacco inspection and price reporting. That is to say, by means of inspection we tell each grower what grade his tobacco is, and by price reports, what each grade is averaging on the market. Then when the grower sees that his tobacco has been bid off at a price unreasonably below the market average for the grade he can reject the sale and put the tobacco back in line for resale.

One of the difficulties we have run up against in making our inspection service fully effective is that of making individual growers realize the necessity of comparing the prices at which their tobacco sells with our published average prices for tobacco of the same grade or grades. This is extremely important, for if by such neglect any one of you lets a pile go at 5, 10, or 15 cents a pound less than its true market value then you have lost the chance to make several extra dollars on your sale. There is no need to lose that money. All you have to do is to make proper use of the service provided by the Department to protect you against just such losses.

I have said that we have difficulty in getting farmers to make use of the service. What I mean is that we see hundreds of instances where farmers should have rejected the sale but failed to do so. On the other hand, many farmers do make use of the service, and we have followed up as many of these rejections as possible to see whether the growers made or lost, and how much. The results are so interesting that I am going to tell you about them.

The studies we have made so far cover the two crops of 1939 and 1940. The actual data on the sales and resales were collected in the following manner. Inspectors obtained coupons of the warehouse tickets from lots of tobacco being rejected because of unsatisfactory prices. After the tobacco was re-offered and sold, coupons were obtained from these same lots. The coupons of warehouse tickets gave complete details of both transactions and the results of sales and resales were tabulated. No cases were recorded unless we had coupons for both the original sale and the resale. Since the principal duty of inspectors is to certify grades of tobacco, they had little time to devote to the collection of sales and resales and for that reason our records represent only a fraction of the rejections and resales on designated tobacco markets. Even so, we have complete data on nearly a thousand rejections and resales which show clearly how much growers have profited by marketing their tobacco through the use of our inspection and market news services.

Typical examples of sales and resales will best illustrate how this information has been used to advantage by some tobacco growers. A Florida farmer offered for sale a lot of tobacco that weighed 140 pounds. It was certified as grade B4L by the inspector and when the sale took place it was bid in at \$15.00 per hundred pounds. The farmer studied the tobacco price report and found that B4L had been selling at \$22.00 per hundred. The bid was rejected and when the lot was again offered for sale, it sold at \$22.00 which was an increase of \$7.00 per hundred pounds. That meant an increase of \$9.80 in the amount of the sale, or 46.7 percent above the first offer -

a nice increase for one day, made in an easy way! A grower in Georgia offered a lot of tobacco of 138 pounds. It was graded C5L by the inspector and when offered for sale was knocked down at \$18.00. The farmer consulted the price report and found that this grade had been selling at \$25.00, so the bid on this lot was rejected. It was offered for sale next day and sold at \$26.00, which was an increase of \$8.00 per hundred pounds. This gave the grower a gross profit of \$11.04, or an increase of 44.4 percent above the original offer.

North Carolina farmers may say that tobacco is sold loose, untied, in Georgia and Florida and that this explains such erratic sales. They may say "it can't happen here." Let's see if it does. A farmer in eastern North Carolina offered for sale a lot of 324 pounds. It was inspected and graded B5F and the best offer was \$14.00. The price report showed that on the previous day this grade had averaged \$18.50 per hundred pounds. The offer was rejected and the lot was re-offered on the same floor the same day and sold at \$19.00, which was an increase of \$5.00 per hundred pounds. By using the information supplied by the inspection and market news services that farmer increased his returns from the sale by \$16.20. On another market in eastern North Carolina a grower offered a lot of 350 pounds. It was inspected and graded C5L. When the sale took place it was bid in at \$25.00. The grower noted from the price report that C5L had averaged \$29.00 the previous day, so he rejected the bid. The lot was again offered, the same day on the same floor, and sold at \$31.00, or an increase of \$6.00 per hundred pounds. The gross profit from the resale of the lot was \$21.00, which is an excellent daily income.

Most of you may be farming here around Oxford and may think that such sales do not take place on this market. A couple of examples of sales and resales on your local market may therefore be appropriate. A farmer offered a lot which weighed 290 pounds. It was inspected and the grade certified as X3L and bid in at \$14.50. The price report showed that X3L had sold on the previous day at an average of \$21.50. Since the bid was \$7.00 per hundred pounds below the average price for this grade, it was rejected. The lot was again offered for sale and sold at \$22.00, or an increase of \$7.50 per 100 pounds. The resale of this lot gave the grower a gross profit of \$21.75, which represented an increase of 51.7 percent above the original bid. Another farmer placed on sale a lot of 118 pounds which the inspector graded B4R. When offered for sale, the highest bid for the lot was \$10.00 per hundred. The price report showed that B4R had been selling at an average of \$18.00. The ticket was turned and when the lot was again offered for sale it brought \$18.00 per hundred pounds. This was an increase of \$8.00, or 80 percent, above the original offer.

It may be thought that the examples of sales and resales given include all for which data were collected, and that the number is insufficient for any definite conclusion. If we had the facts for only the 6 cases cited, the data would be insufficient, but we have them for many hundreds of such cases, which prove the dollars-and-cents value of the information supplied by the tobacco inspection and market news services.

It should not be inferred that all records of sales and resales show profits to farmers. In some cases farmers either did not understand how to use our information or else backed their own judgment or used information from another source. A couple of examples will serve to illustrate this point. A lot of 252 pounds was offered and after inspection was graded as B5GF. The highest bid was \$8.00 per hundred. The tobacco price report showed that B5GF had been selling at \$7.75 which was one bid below that offered for the lot. However, the grower rejected the bid and on the resale the lot was knocked down at \$7.00 per hundred and so sold. This loss of \$1.00 per hundred pounds was caused through failure of the grower to use properly the information supplied by the inspection and market news services. The loss of \$1.00 per hundred pounds may seem insignificant but in this case the loss for the entire lot was 12.5 percent, which is rather significant. Another grower offered a lot which weighed 476 pounds. It was graded B4F and when the sale took place the high bid was \$20.00. The price report showed that B4F had been selling at an average of \$19.50 per hundred pounds. The bid of \$20.00 was rejected and when the lot was offered again next day it sold at \$18.00 per hundred. This was a loss of \$2.00 per hundred pounds, or 10 percent. Similar examples could be given at some length.

I call particular attention to these cases. Heretofore I have been talking about growers who used the inspection service and price reports to advantage. They made rejections on tobacco that had sold materially below the published grade averages. But in these two cases I have just cited the growers apparently paid no attention to the information before them and made very unwise rejections. The result was they lost money.

This leads to a general observation which is very important, namely: Farmers should be alert to make rejections when the price report indicates that they are not getting fair market value for their tobacco; they should be equally careful not to reject when the price reports show that the price received is in line with the market average for the grade.

Our studies indicate that when lots of tobacco were bid in at prices materially below those shown in the tobacco price report, growers made money by rejecting the bids and re-offering the lots. On some 770 such resales of flue-cured tobacco the average increase was \$4.50 per hundred pounds, or about 25 percent. The studies also show that where bids approximated the prices per grade shown in the price reports, farmers usually failed to profit from rejections.

The right to reject bids is, of course, a part of the auction system of selling tobacco. In the past farmers have often hesitated to reject what they thought to be unsatisfactory prices because they had no definite and disinterested source of market information to back their judgment. The tobacco inspection and market news services now provide unbiased, disinterested market information on a grade basis for the guidance of farmers. Proper use of it will, in many cases, prove of dollars-and-cents value to tobacco growers.